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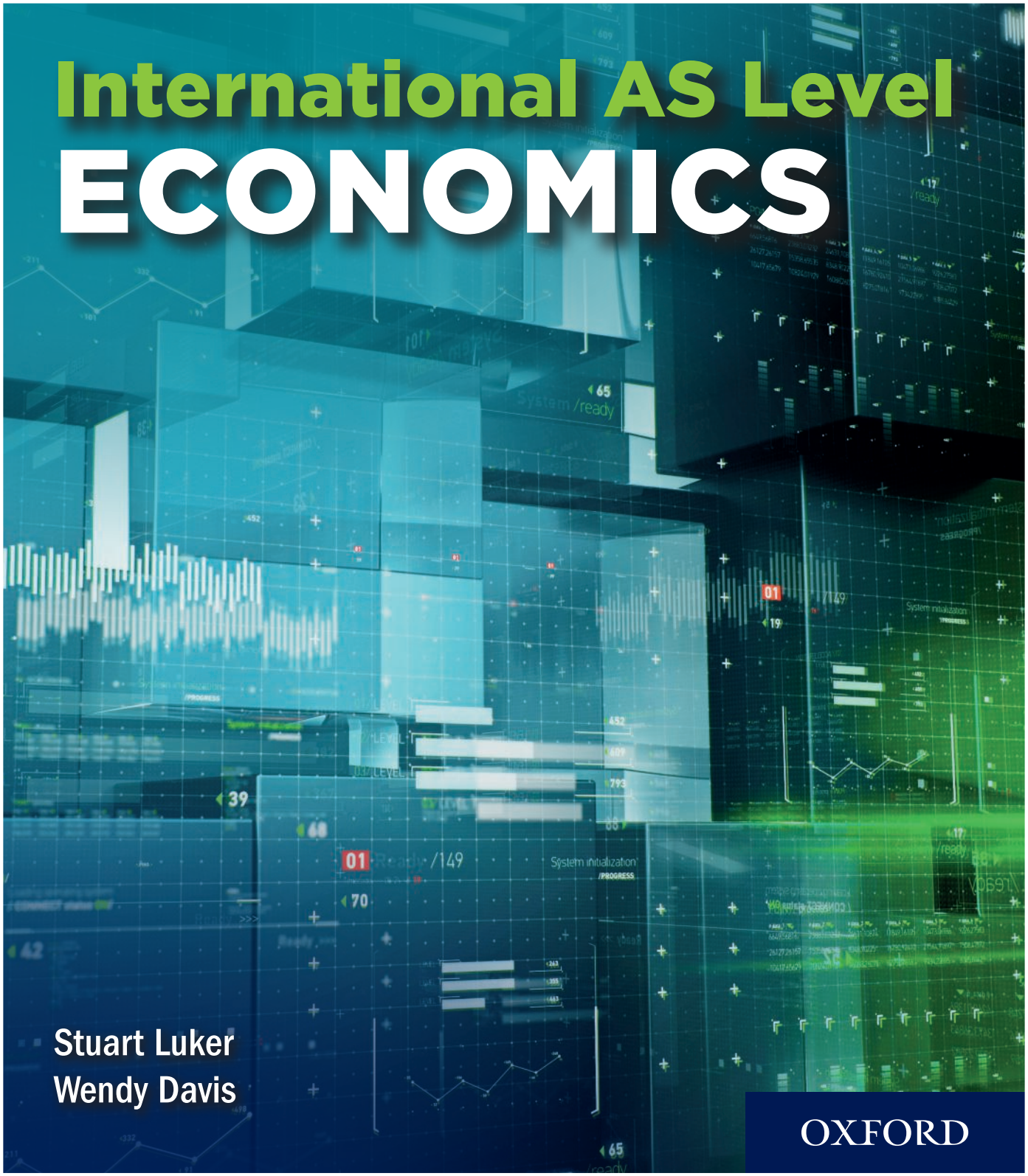

International AS Level
ECONOMICS

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Contents

How to use this book

This book fully covers the syllabus for the Oxford AQA international AS Level Economics course (9640). Experienced examiners and teachers have been involved in all aspects of the book, including detailed planning to ensure that the content adheres to the syllabus.

Using this book will ensure you are well prepared for the assessment at this level and will give you a solid foundation for further study at university level and beyond. The features below are designed to make learning interesting and effective.

Activities

These are exercises that relate to the chapter content. They can be done in class or as part of individual study.

Get it right

These are helpful tips and hints to give you the best chance of success.

Case study

These are real-life examples to illustrate the subject matter in the chapters. These examples are accompanied by questions to test your understanding.

Progress questions

These questions appear throughout the book. They are designed to check that you understand the content as you learn. Answers for all progress questions are available in the back of the book.

Exam-style questions

These questions appear at the end of each chapter section. They use the same command words, structure and mark assignment as the OxfordAQA exams. Answers for all exam-style questions are available in the back of the book.

Key terms

These are the most important vocabulary and definitions that you need to learn. They are also compiled at the end of the book in a glossary.

Link

Links are provided to other parts of the book, and to the A2 course/book where appropriate, for you to find related information.

Quantitative skills

These are the skills required to calculate, illustrate, apply and interpret data and key economic concepts. The nine specific QS are listed in the syllabus.

The questions, example answers, marks awarded and/or comments that appear in this book were written by the authors. In examinations, the way marks would be awarded to answers such as these may be different.

At the end of the book, you will find a glossary of the key terms highlighted in orange in the text.

1 The economic problem and methodology

The operation of markets, market failure and the role of government

1.1 The nature and purpose of economic activity

This section will develop your knowledge and understanding of:

- how the central purpose of economic activity is the production of goods and services to satisfy needs and wants
- how the key economic decisions are made: what to produce, how to produce and who is to benefit from the goods and services produced.

Activity

Food, clothing and shelter are traditionally thought to be what people need to survive. Do you think there is anything else necessary for people to survive in the modern world?

Key terms

Needs: goods and services required for people to survive.

Wants: goods and services that people would like but are not required for them to survive.

Economic activity: the production, distribution and consumption of goods and services.

Production: turning inputs, such as raw materials, capital and labour, into final output.

Welfare: the satisfaction or utility obtained from consuming goods and services, which contributes to the standard of living and happiness of an individual or group.

Link

Factors of production are covered in 1.2 "Economic resources" and the difference between production and productivity in 3.1 "Production and productivity".

The world's population is approximately 8 billion. People all need food, clothing and shelter to survive. They also want a range of other goods and services. Who decides what is produced? How do people obtain the goods and services they need and want? Why are some people better off than others? These are important questions. Economics can help to provide the answers.

The central purpose of economic activity

The central (or main) purpose of economic activity is the production of goods and services to satisfy people's needs and wants.

What is the difference between needs and wants?

Needs are goods and services required for people to survive. The main needs are food, clothing and shelter. Whatever people have they are likely to want more. **Wants** are goods and services that people would like but are not required for them to survive. Someone's wants might include a new mobile phone.

What is economic activity?

Economic activity is concerned with the production, distribution and consumption of goods and services. Wood from a tree is made into a table to be sold to someone able and willing to buy it.

Production of goods and services to satisfy needs and wants

Production involves turning inputs, such as raw materials, capital and labour, into final output. Production includes providing both goods and services, something of use that adds to people's welfare. **Welfare** is the satisfaction (called utility in Economics) obtained from consuming goods and services, which contributes to the standard of living and happiness of an individual or group.

For example, to make a book requires someone to write it, paper and other materials, somewhere for this to be done and someone to organise this. Education will usually require someone to teach, a variety of materials and equipment and somewhere to do this. People who buy these goods and services then obtain satisfaction or utility from their use.

Distribution and consumption

After the goods and services have been produced, they must be allocated to individuals for their use.

Progress questions

1 What is the central purpose of economic activity?
2 Give **two** examples of economic activity.
3 Which word means the satisfaction obtained from consuming a product?
4 Give **two** examples of inputs.

Quantitative skills

Two averages or typical values commonly used in Economics are the (arithmetic) mean and the median. The median is the middle value of a set of numbers when arranged in order. There are as many values above the median as below it. For example, the median is 5 for the numbers, 1, 3, 5, 8 and 12. There are two numbers below 5 and two above. If the set is changed to 1, 3, 5, 7, 8 and 12, the median is 6. There are three numbers below 6 and three above 6 and 6 is halfway between the two middle numbers of 5 and 7.

The mean is found by adding up the numbers and dividing by how many there are. For example, taking the first set of numbers used for the median, 1, 3, 5, 8 and 12, the total is 29. Dividing by 5 gives a mean of 5.8. Remember to include units in your answers where relevant.

Link

Utility and measures of economic welfare are covered in the A2 part of the course.

Case study: Time for tea?

People have been drinking tea for thousands of years. Apart from water, it is the most popular drink in the world. To grow tea requires high temperatures, lots of rain and a long growing season. Therefore, some countries are more suited to growing tea than others. Table 1.1.1 lists the top six tea-producing countries (in alphabetical order) and the amounts produced at a particular time.

▼ **Table 1.1.1**: Leading tea producers (figures relate to 2017)

Country	Output of tea (tonnes)
China	2,473,443
India	1,325,050
Kenya	439,857
Sri Lanka	349,699
Turkey	234,000
Vietnam	260,000

Source: www.worldatlas.com; accessed 15 October 2019

▲ **Figure 1.1.1**: A tea plantation

1 Calculate the median output of tea.
2 Calculate the mean output of tea, to **one** decimal place.

Quantitative skills

Always check the degree of accuracy required for your answer. Is the answer to be rounded to the nearest whole number, one decimal place, or some other requirement? It may also be helpful to show your working.

The key economic decisions

People have needs and wants that have to be satisfied. This leads to three important questions.

- Which goods and services should be produced and in what quantities?
- How should these goods and services be produced?
- Who should benefit from the goods and services produced?

How these decisions are made depends on the type of economy. This may be a free market, a mixed or a centrally planned economy.

Link

The different types of economy are covered in 1.3 "Scarcity, choice and the allocation of resources".

Which goods and services should be produced and in what quantities?

To satisfy people's needs, food, clothing and shelter must be produced. However, many people will want, and be able to afford, much more than this. Some people only have enough money to pay for their basic needs. Others may have enough money to buy plenty of land and a large house, filled with expensive items.

Resources such as land have different uses, including for houses, factories and farmland.

A decision must be made about which goods and services to produce with the resources and in what quantities.

How should these goods and services be produced?

Some goods are produced using a lot of equipment. For example, modern car factories have robots doing most of the work, both in producing the parts and assembling the car. This is because it is usually cheaper and quicker to use machines when making a large number of items that are the same or similar. However, someone still needs to design the machine, switch it on and check the quality of the final products.

Some services need many workers because the people using the good or service have different requirements. For example, it would be difficult to programme a machine to cut someone's hair. However, hairdressers and barbers also need equipment such as scissors and hair dryers.

A decision must be made about how much should be used of the different inputs to provide a particular good or service. This will depend on the cost of alternative methods.

Who should benefit from the goods and services produced?

Economic activity is concerned with the distribution and consumption of goods and services as well as their production. How can what has been produced be allocated? This could be on the basis of ability to pay, tradition, need or by some other method. Welfare is affected by

how goods and services are distributed as well as by what and how much is produced.

A decision must be made about who should benefit from the goods and services produced.

Primary, secondary and tertiary production

Production is often classified into one of three sectors.

- Primary
- Secondary
- Tertiary

Primary sector

Primary production involves extracting or acquiring raw materials from the land, sea or air. The **primary sector** industries are mining, quarrying, farming, forestry and fishing. The primary sector of an economy provides raw materials that are used to produce goods and services.

Secondary sector

The **secondary sector** involves any construction or manufacturing activities. The secondary sector uses the raw materials from the primary sector for construction or to make goods.

Tertiary sector

The **tertiary sector** involves providing services. These may be services directly involving the consumer, for example the services of a dentist. They also include services that enable the finished goods to reach consumers. For example, delivery drivers and people working in shops are employed in the tertiary sector.

Key terms

Primary sector: the part of the economy involved with extracting or acquiring raw materials.

Secondary sector: the part of the economy involved with construction or manufacturing.

Tertiary sector: the part of the economy that provides services.

Automation: using advanced technology to produce goods and services with little help from workers.

Progress questions

5 Classify each of the following jobs into primary, secondary or tertiary activities:

i. drilling for oil
ii. driving a taxi
iii. making tyres for a car
iv. working in a car-assembly factory
v. growing coconuts
vi. working as a market trader
vii. fishing
viii. building a hotel
ix. working as a hotel cleaner.

Case study: Is automation taking over?

Automation involves using advanced technology to produce goods and services with little help from workers. It is found in the manufacture and assembly of almost every product. For example, robots can be found spray painting cars in many modern automotive factories.

Increasingly, artificial intelligence (AI) is being used to allow machines to react to, and learn from, their environment. Computer-controlled cars can drive themselves. Heating your home and switching on your lights can be done from your smartphone 100 miles away. Consequently, helped by the development of computers in recent years, an increasing number of jobs that used to be done by humans are now done by machines.

1 In a table, list **advantages** and **disadvantages** of automation.

2 Which jobs or types of job are **most** and **least** likely to be replaced by machines? Why?

▲ **Figure 1.1.2**: Robots are now used to produce a variety of goods and services